INTRODUCTORY STATEMENT

PRESS CONFERENCE

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Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of the meeting of the Governing Council, which was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

While the overall economic situation is expected to improve over 2021, there remains uncertainty surrounding the near-term economic outlook, relating in particular to the dynamics of the pandemic and the speed of vaccination campaigns. The rebound in global demand and additional fiscal measures are supporting global and euro area activity. But persistently high rates of coronavirus (COVID-19) infection, the spread of virus mutations, and the associated extension and tightening of containment measures are weighing on euro area economic activity in the short term. Looking ahead, the ongoing vaccination campaigns, together with the envisaged gradual relaxation of containment measures, underpin the expectation of a firm rebound in economic activity in the course of 2021. Inflation has picked up over recent months mainly on account of some transitory factors and an increase in energy price inflation. At the same time, underlying price pressures remain subdued in the context of weak demand and significant slack in labour and product markets. While our latest staff projection exercise foresees a gradual increase in underlying inflation pressures, it confirms that the medium-term inflation outlook remains broadly unchanged from the staff projections in December 2020 and below our inflation aim.

In these conditions, preserving favourable financing conditions over the pandemic period remains essential. Financing conditions are defined by a holistic and multifaceted set of indicators, spanning the entire transmission chain of monetary policy from risk-free interest rates and sovereign yields to corporate bond yields and bank credit conditions. Market interest rates have increased since the start of the year, which poses a risk to wider financing conditions. Banks use risk-free interest rates and sovereign bond yields as key references for determining credit conditions. If sizeable and persistent, increases in these market interest rates, when left unchecked, could translate into a premature tightening of financing conditions for all sectors of the economy. This is undesirable at a time when preserving favourable financing conditions still remains necessary to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability.

Against this background, the Governing Council decided the following:

First, we will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. Based on a joint assessment of financing conditions and the inflation outlook, the Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year.

We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

We will continue to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Second, net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Third, the Governing Council decided to keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Finally, we will continue to provide ample liquidity through our refinancing operations. In particular, our third series of targeted longer-term refinancing operations (TLTRO III) remains an attractive source of funding for banks, supporting bank lending to firms and households.

Preserving favourable financing conditions over the pandemic period for all sectors of the economy remains essential to underpin economic activity and safeguard medium-term price stability. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Following the strong rebound in growth in the third quarter of 2020, euro area real GDP declined by 0.7 per cent in the fourth quarter. Looking at the full year, real GDP is estimated to have contracted by 6.6 per cent in 2020, with the level of economic activity for the fourth quarter of the year standing 4.9 per cent below its pre-pandemic level at the end of 2019.

Incoming economic data, surveys and high-frequency indicators point to continued economic weakness in the first quarter of 2021 driven by the persistence of the pandemic and the associated containment measures. As a result, real GDP is likely to contract again in the first quarter of the year.

Economic developments continue to be uneven across countries and sectors, with the services sector being more adversely affected by the restrictions on social interaction and mobility than the industrial sector, which is recovering more quickly. Although fiscal policy measures are supporting households and firms, consumers remain cautious in the light of the pandemic and its impact on employment and earnings. Moreover, weaker corporate balance sheets and elevated uncertainty about the economic outlook are still weighing on business investment.

Looking ahead, the ongoing vaccination campaigns, together with the gradual relaxation of containment measures – barring any further adverse developments related to the pandemic – underpin the expectation of a firm rebound in economic activity in the course of 2021. Over the medium term, the recovery of the euro area economy should be supported by favourable financing conditions, an expansionary fiscal stance and a recovery in demand as containment measures are gradually lifted.

This assessment is broadly reflected in the baseline scenario of the March 2021 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP growth at 4.0 per cent in 2021, 4.1 per cent in 2022 and 2.1 per cent in 2023. Compared with the December 2020 Eurosystem staff macroeconomic projections, the outlook for economic activity is broadly unchanged.

Overall, the risks surrounding the euro area growth outlook over the medium term have become more balanced, although downside risks remain in the near term. On the one hand, better prospects for global demand, bolstered by the sizeable fiscal stimulus, and the progress in vaccination campaigns are encouraging. On the other hand, the ongoing pandemic, including the spread of virus mutations, and its implications for economic and financial conditions continue to be sources of downside risk.

Euro area annual inflation increased sharply to 0.9 per cent in January and February 2021, up from -0.3 per cent in December. The upswing in headline inflation reflects a number of idiosyncratic factors, such as the end of the temporary VAT rate reduction in Germany, delayed sales periods in some euro area countries and the impact of the stronger than usual changes in HICP weights for 2021, as well as higher energy price inflation. On the basis of current oil futures prices, headline inflation is likely to increase in the coming months, but some volatility is expected throughout the year reflecting the changing dynamics of the factors currently pushing inflation up. These factors can be expected to fade out of annual inflation rates early next year. Underlying price pressures are expected to increase somewhat this year due to current supply constraints and the recovery in domestic demand, although pressures are expected to remain subdued overall, also reflecting low wage pressures and the past appreciation of the euro. Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at subdued levels, although market-based indicators have continued their gradual increase.

This assessment is broadly reflected in the baseline scenario of the March 2021 ECB staff macroeconomic projections for the euro area, which foresees annual inflation at 1.5 per cent in 2021, 1.2 per cent in 2022 and 1.4 per cent in 2023. Compared with the December 2020 Eurosystem staff macroeconomic projections, the outlook for inflation has been revised up for 2021 and 2022, largely due to temporary factors and higher energy price inflation, while it is unchanged for 2023.

Turning to the **monetary analysis**, the annual growth rate of broad money (M3) stood at 12.5 per cent in January 2021, after 12.4 per cent in December and 11.0 per cent in November 2020. Strong money growth continued to be supported by the ongoing asset purchases by the Eurosystem, which remain the largest source of money creation. The narrow monetary aggregate M1 has remained the main contributor to broad money growth, consistent with a still heightened preference for liquidity in the money-holding sector and a low opportunity cost of holding the most liquid forms of money.

Developments in loans to the private sector were characterised by somewhat weaker lending to non-financial corporations and resilient lending to households. The monthly lending flow to non-financial corporations continued the moderation observed since the end of the summer. At the same time, the annual growth rate remained broadly unchanged, at 7.0 per cent, after 7.1 per cent in December, still reflecting the very strong increase in lending in the first half of the year. The annual growth rate of loans to households remained broadly stable at 3.0 per cent in January, after 3.1 per cent in December, amid a solid positive monthly flow.

Overall, our policy measures, together with the measures adopted by national governments and other European institutions, remain essential to support bank lending conditions and access to financing, in particular for those most affected by the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains critical in view of the sharp contraction in the euro area economy. To this end, support from national fiscal policies should continue given weak demand from firms and households relating to the ongoing pandemic and the associated containment measures. At the same time, fiscal measures taken in response to the pandemic emergency should, as much as possible, remain temporary and targeted in nature to address vulnerabilities effectively and to support a swift recovery. The three safety nets endorsed by the European Council for workers, businesses and governments provide important funding support.

The Governing Council recognises the key role of the Next Generation EU package and stresses the importance of it becoming operational without delay. It calls on Member States to ensure a timely ratification of the Own Resources Decision, to finalise their recovery and resilience plans promptly and to deploy the funds for productive public spending, accompanied by productivity-enhancing **structural policies**. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience and the growth potential of Member States’ economies, thereby supporting the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in addressing long-standing structural and institutional weaknesses and in accelerating the green and digital transitions.

We are now ready to take your questions.

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You announced that the ECB will significantly increase bond buys over the next two months. Given the inbuilt flexibility that you have, what has kept you from increasing the purchases so far?

My second question would be: you said “significantly”. Could you perhaps quantify that for us a little bit? Where does it start? At €25 billion a week or closer to €30 billion a week?

Your first question is really why did we not start a bit earlier? I think the answer to that is that of course we have flexibility but we made a commitment back in December that we would preserve favourable financing conditions that would entail tightening that would prevent us from actually following the inflation path that serves for us as the anchor of our policies. You have on the one hand flexibility, you have on the other hand a commitment to preserving favourable financing conditions and a clear link to the inflation outlook. This is clearly a monetary stance decision and therefore one that requires the Governing Council to be involved. Given that we were a few days away from Governing Council meeting on monetary policy, number 1, and that we were a few days away from having the projections provided by ECB staff, we thought it would certainly be a better idea to do the analysis or the joint assessment that we want to conduct in order to determine what kind of significant increase, as you rightly said, would be needed in order to respond to the commitment that we made.

Do I have a number in mind to explain significant? The answer to that is no, and no for a very specific reason: it's that we want to deliver on our commitment. That commitment made in December, as I said, was to preserve favourable financing conditions. Point number 1. Point number 2: we have full flexibility under PEPP. That is the cornerstone of PEPP. But to actually assess jointly favourable financing conditions, determine their favourability in relation to the inflation outlook, we are not bound by any particular, specific number. So what the Governing Council has decided is to – and I'll read exactly the sentence because I don't want to stray away from what was decided, by total consensus by the way – “The Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of the year.” So this is what has been decided by consensus of the Governing Council. Significant increase of the purchases. We are looking at a time horizon of a quarter, which conveniently coincides with the staff projections that we receive on a quarterly basis and which will enable us to actually identify whether the financing conditions have evolved, remained favourable and actually help us to counter any downward pandemic effect on our inflation path.

Now, I'm also happy to explain exactly what we mean by financing conditions and favourable financing conditions, because I know that this was a question that many of you had. Shall I do that? Yes, and I am sorry if I'm stealing the thunder of some of those who wanted to ask that question, but I know that it's a question that is on your mind. When we measure financing conditions, I use two words that some of you found either questionable or a bit strange. I use the word “holistic” and I use the word “multifaceted”. It wasn't a fancy or a tantrum on my part; it was very targeted at particular indicators. So let me take you through the holistic first. What we mean by holistic is that we cover the whole chain of transmission from the upstream stage where you find the risk-free interest rate, where you find the sovereign yields, to the downstream aspect of the credit terms. That clearly includes a multiplicity of rates that we all look at as well. It has to do with a stage where monetary policy acts with a lag.

Upstream, essentially down to risk-free interest rate, sovereign yields, it's a segment that actually responds quite rapidly which is measured on an ongoing basis, and where our monetary policy can be most efficient. That's not enough. What's important is that actually financial institutions, those that provide financing to the economy, actually use those rates to determine the credit terms that they are then going to offer. That upstream is clearly an important component but it is not the component of our assessment of the financing conditions, which is why I use the word holistic. We go from upstream to downstream and the second word that I used, which is “multifaceted”, was also apparently a bit of a puzzle for some. Well, multifaceted, we organise information in a multidimensional form that might be more convenient for some of you, where each indicator can be studied in its own right, and assessment is not based on an aggregated synthetic measure.

We don't operate mechanically; we look at all the indicators, we focus indeed on what is upstream because that's where we can act and that's where banks and providers of financing actually take their cue about the credit terms that they're going to offer. It's also important to be multifaceted because there are some downstream components that are not necessarily going to be influenced by upstream movement. Take for instance some fiscal measures that have rightly been decided, such as providing moratorium or guarantees. If that was withdrawn, well, clearly it will have an impact on the downstream aspect of the indicators. In the same way, our TLTRO is also helping the downstream aspect of what we are looking at. That's the reason why we look at financing conditions, looking at the upstream, the downstream but looking at them in their own right in a holistic way, all of it, the whole transmission chain, and each and every one of them because they might respond differently depending on what is addressed to them.

Now, the second question of course is: how do we assess favourability? Well, if you look carefully at the introductory statement, we refer to a joint assessment of how financing conditions and our inflation outlook have evolved since the last time we identified favourability and concluded with our assessment. We look at the main drivers of course, so concerning the anchor that I have used as well the last time we had the press conference, it's the inflation outlook. The assessment of the financing conditions, determination of how favourable they are is going to be done in conjunction with the inflation outlook. The compass that we have, another word that I used as well, is the financing conditions. So we use all that and with a bit of good work, good analysis based on projections and this joint assessment, our monetary policy will contribute to taking the economies across the bridge of the pandemic that we are suffering from and have been suffering from for the last year or so.

On the rise in bond yields, we've heard different views from Governing Council members in the past few weeks, and some said that it can be warranted if it reflects a better outlook. Which arguments were presented over the last few days and what exactly led you to conclude that bond purchases must pick up in the coming quarter?

Then also a second question on this change in language: should market participants expect a change in the pace of PEPP purchases only after Governing Council meetings? Do you think it's important to first build a consensus on that?

On your last point, as I said: quarterly basis is very convenient because it helps with having the right data, the right assessment, the projections of our staff sometimes checked by the national central banks as well twice a year. So we have fresh data, fresh information that is extremely useful in order to look at these two components that I have discussed. The anchor inflation outlook, how does it evolve, how does it look like in the medium term? And the compass that we use, which is the financing conditions, which we committed to preserve as favourable in order to resist the downward impact of pandemic on our inflation path. So we are not monitoring on a weekly basis. I know that some of you listening are looking at weekly numbers, fair enough. But the Governing Council is not micromanaging the operations and, in that vein, actually, I would like to tell you that when you look at this coming Monday, don't expect a huge big rise, okay? The decision was taken today. We have still a good volume of redemptions this coming Monday. But I can also tell you that we are beginning to implement the decision that was taken today to significantly increase our purchases as of today.

The real pace on a weekly basis, which some of you are interested in, is not going to be visible or strongly visible this Monday. But again we are looking at a time horizon which is longer than the next week, and the Governing Council meets any time when it's needed. We're getting very close to the first anniversary of days when we were meeting almost on a daily basis. That's when we started PEPP, so if it is necessary in order to respond with flexibility and to deliver on our commitment to preserve favourable financing conditions, the Governing Council can always meet. But clearly, the Executive Board can also use the flexibility that is embedded in the programme in order to actually deliver on the decision that was taken today, which is to use flexibility in order to significantly increase our purchases.

The first one is about the goals of your decision today. I am curious: is your aim to improve financing conditions compared to where they were, let's say, this morning? Or to preserve the levels you have now? If you want to improve them, what is the benchmark? Philip Lane put up some charts a couple of weeks ago showing curves in December. Is that your goal; to go back to the December level? Or where is the favourable financing conditions level?

The second question is: did anybody at the table suggest, propose or make the argument for increasing the total envelope for PEPP?

Let me remind you once again that when we assess favourable financing conditions, we do it with a series of indicators that go from upstream to downstream. I think that Philip actually in his recent speech very clearly indicated what was the composition of those upstream and downstream elements and what was the interconnection between the two and why the upstream actually mattered, without prejudice to us also looking very carefully at the downstream. We do that on the one hand, and to assess favourability we look on a quarterly basis at the inflation outlook. On the basis of the commitment we made to preserve favourable financing conditions, that determines the decision that is made by the Governing Council. On the occasion of this particular monetary policy decision, the Governing Council by consensus at the table decided that it was warranted to significantly increase purchases for the next quarter with a monthly reference.

There is no reference to a particular day. There is no reference to any kind of yield curve control if it is the question that you are angling at. We are not doing yield curve control. We are preserving favourable financing conditions with a look at the inflation outlook that we have and how one contributes to reducing the downward impact of the pandemic on our inflation path. You asked about the envelope. Well, look, what we did with the envelope was quite spectacular I would suggest. It was decided on 18 March. It was subsequently increased by €600 billion in June. It was then again increased by €500 billion in December, and in December, we clearly focused on preserving favourable financing conditions. If I have not repeated it ten times, I don't think I will have said it. So, that's what we did. For the moment, we probably have about €1 trillion left in the envelope. It's very clear also in the introductory statement, to preserve favourable financing conditions, if we need less than the whole envelope, we will not use the whole envelope. If, equally, to preserve favourable financing conditions we need to recalibrate the whole envelope, we will do so. So, again, it's flexibility within the monthly purchases under the quarterly decision that is made by the Governing Council and it’s flexibility as to how we use the overall envelop during the life of PEPP.

A question first on the headline inflation that is likely to increase as you said. The problem of course is you justify your intervention by saying you needed to increase inflation in the past. If the headline inflation gets to 2% what arguments are you going to use to justify your intervention?

One other question if I can on climate change. You had a paraglider on your roof yesterday. You debated the issue I think a few weeks ago and the leaks were that the ECB intervention might not expand to choosing bond buying according to the CO2 emission of companies. Is that correct? Will you keep the market neutrality mantra?

On the first one, let me make a few comments about inflation, because if you look at the staff projections which will be released later on this afternoon, you will see that our inflation forecast is of 1.5 for this year and then moves down to 1.2 and finishes in 2023, which is our medium-term horizon, at 1.4. It is possible that this year, particularly at the end of 2021, inflation actually hits 2%. But I will tell you something: we will see through that for a very clear reason and that is that inflation will most likely go up possibly to 2% because of some technical and temporary reasons. Let me just mention a few and we can go through the list, but it is the German VAT return, which has had an upward pressure on prices. It is the significant modification of the weighing in the HICP basket to adjust to the change of consumer behaviour and consequences that it has in '21. It has to do with some idiosyncratic factors having to do with Italy and France that have extended into '21 some of the sales, particularly in the clothing industry. It has to do of course with the increase in prices in the oil segment.

So, for all these reasons that are, we believe, temporary, technical, as I have just tried to explain, we will see through that. It is important for us to actually look at what happens next and to look at the medium-term inflation outlook. There, we are clearly seeing subdued inflation. Why is that? Well, because of subdued demand, and second, because of the slack in the economy that will gradually over the course of the recovery reduce, but which is large and has a significant impact. Wage pressure. There is clearly limited pressure up on wages. Also, the impact of the euro appreciation. So, for all these reasons, we believe that, while it has increased a little bit in the first two years, in the third year, we are still at 1.4, which is far away from our inflation path pre-pandemic, and of course, far away from our aim which is close to, but below, 2%. So that's what I really wanted to explain in relation to inflation. That's how we see it and clearly our inflation aim, and our inflation path pre-pandemic, remain two very important anchors of the monetary policy decisions that we will make.

The question about climate, so I think that it is almost unanimous within the Governing Council that climate imperatives are nothing less than imperatives. I have said repeatedly that it is the biggest challenge that is addressed to us. Hence, in my view, any institution, whatever its mandate, whatever its remit has to question itself and wonder what can be done. Now, obviously, an independent central bank has to deliver on its mandate and we need to do that and we need to look at what we can do in compliance and in respect of our mandate, without over-interpreting the mandate. Using this primary objective, which in my view justifies fully that climate change matters. We actually take it into account for various reasons. The integrity of prices on the market. A good risk management. Appropriate supervision that falls under the responsibility of Andrea Enria, but on all those accounts we have to explore what we can do, how efficient we can be in doing so and to your very clear question, it will apply of course to how we value collateral. It will apply to how we value corporate bonds, with proper risks being taken into account.

Now, at this point in time, the main responsibility in my view, in the view of the Governing Council, lies first and foremost with governments, governments at the European level. Europe is delivering in that respect, but with governments in the various member states. There will be a staged approach where clearly information, disclosure, investment will all be required in order to address the climate change issue. So, while we are on the same page in many ways with some of the civil society organisations, we cannot help but regret enormously the approach, the conduct that was adopted which clearly by paragliding on to the roof of the ECB is exposing people's health, life possibly. We don't think that this is the necessary way to conduct a dialogue, but we will definitely continue this dialogue.

Firstly, your colleague Fabio Panetta cited the Daft Punk song, *Harder, Faster, Better, Stronger* calling for the ECB to do more. Do you think that by accelerating the pace of your bond purchases as you promised to do, that that satisfies that call?

Secondly, can you tell us whether your latest economic forecasts include the effect of the $1.9 trillion stimulus programme that's just been voted through in the US congress?

First of all I'm delighted that my colleague Fabio Panetta decided to quote a French group. He could have borrowed from Baron de Coubertin. We do some of that as well. I go back again to the introductory statement and will be happy to read it again, although you have it in front of you I'm sure: “The Governing Council expects purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year”. When I tell you that we are moving into action as early as tomorrow, I think that that fits the bill. Now, you will find some that will want a little more, a little less, a little this, a little that. Suffice to say that there was consensus at the table of the Governing Council today to do exactly that, conduct a significantly higher pace of purchases during the next quarter as compared with the first three months of this year.

Now, on the issue of the massive fiscal stimulus that is likely to be signed into law probably today and will give, knowing the Treasury head Yellen, the efficiency that she has I'm sure that there will be immediate implementation. The answer to your question is no. Because of rules that many of you are familiar with, until a piece of legislation is voted, we cannot take that into account. So, it was voted yesterday. It will be moving into law tomorrow. Hence, it is not embedded in our projections, but we do - and the introductory statement makes reference to the external demand, to the impact that a massive fiscal stimulus will have on our pace of growth that it will have on trade of course. So, we believe that the Biden plan is actually going to have an impact, not to be overestimated though, because clearly there will be a lot of domestic measures that will impact predominantly the US domestic markets, but it will have an impact. An external demand that is addressed to the euro area and to other countries of course will generate probably and will have an impact on our growth projections, and that will indeed be reflected in three months' time when we produce our June projections.

One thing that I will say is that the big difference if you will between the Biden stimulus, which as I said, debated, voted by the two houses, signed into law, cheques in the mail and our massive fiscal stimulus here in Europe is that there is a bit of a lag time between the two. The Next Generation EU, as we say in the introductory statement, is critically important in order to help stimulate the European economies from a fiscal point of view and is also terribly important for two other reasons: because it needs to address the issue of heterogeneity between countries and between sectors, and it needs to focus on what will be productivity enhancing and moving our economies and our Europe into the future with the focus on digital and green. But there is a time lag between the two, let's face it. So, while we import a bit of yield increase, the trade movements are going to come, but our own fiscal measures are not kicking in yet. And we need that.

Madame Lagarde, we accept that you have not taken the Biden stimulus into account, but could you maybe elaborate a bit on how it has already resulted in inflation expectations rising significantly in the US? Could you maybe say something about how this global development will affect the medium outlook for inflation in the euro area?

You have kept your inflation projection for 2023 at 1.4%, so very much below the target for the medium term. So, why actually didn't you do more from a monetary policy perspective?

At the risk of boring all of you, I think that when the Governing Council by full consensus decides that purchases under the PEPP over the next quarter will be conducted at a significantly higher pace than during the first months of this year, it is not an insignificant commitment that they're making. I remind you that it comes on the top of the monthly €20 billion that are purchased under the APP. So I think there is a serious taking into consideration of the undesirable yield increase that we are seeing, that we have seen in the last few weeks, a portion of which certainly is attributable to the inflation expectations and the GDP growth expectations in the United States. That's to my point of the time lag. I hope we can move fast on the fiscal front here in the euro area.

Now, obviously staff here at the ECB have been very diligently looking at the Biden plan and trying to assess on a very preliminary basis what the impact will be on both growth through the trade channel in particular, and also on the inflation expectations and particularly on the inflation outlook. There will be some impact, it's pretty clear. That will be reflected in future projections because this has not been taken on board this time around. I think they also want to have a look very carefully at what is eventually delivered after the signing into law of what has been voted yesterday by the House of Representatives.

Madame Lagarde, I know that you've been over how to preserve financial conditions. About the purchases that you're intending to make in the coming quarter, are you targeting a particular segment of the yield curve? I'm asking this in the context of the sharp rise in sovereign yields in the longer part of the curve that we've seen globally.

One second question is about the ongoing discussion on setting a European bad bank or a network of national asset management companies. Can you give us a hint of what this discussion is leading to and whether there have been some developments?

On your first point, the answer is pretty easy. No, we are not focusing on any particular segment of the yield curve. We want to look at the entire yield curve and when it comes to mind that the ten years sovereign yield is one that is often referred to, it is not the only one. We will look at the entire yield curve which has evolved in a slightly different way depending on whether you are in the two to five years or way beyond including up until 30 years. So, we will look at all of it. As I said, it's holistic. I am not going to take you through that again. I hope what we mean by holistic is clear enough. What we mean by multifaceted is clear enough as well. I know those are not usual words for this particular type of press conference, but never mind. We can always expand our vocabulary as long as we know what's behind it. So, the entire yield curve.

On the European asset management company, the ECB is continuously monitoring the impact of the COVID-19 crisis on banks. A large-scale system-wide increase in NPLs would require a comprehensive approach at the national and EU levels. Now, based on the development and the monitoring, different policy options are being considered and could be further explored. Certainly at the ECB we have taken note of the Commission proposal to asset management companies that would operate at the national level and we agreed that this is a useful way to manage a systemic NPL problem. As you also know, my colleague Andrea Enria has had in mind a more pan-European approach. This might come along later, but I think the key urgency is to make sure that there are mechanisms in place that can deal with the risk that bears on banks.

Madame Lagarde, I have two questions as well. One would be on the still high euro exchange rate because clearly despite all the easing measures, the euro is still very close to that 1.20 benchmark towards the dollar. How much of a concern is that for you and your inflation outlook?

The second question would be more in your capacity of a global leader. Currently, there is discussion about easing or perhaps changing the Stability and Growth Pact also in response to that unprecedented crisis and the unprecedented debt levels. Would you think that's a good idea?

On your first question concerning the appreciation or the level of the euro at the moment, I have said it before, I repeat it again. We are not targeting any particular exchange rate for the euro, but equally we monitor very carefully the development of the rate because clearly it has an impact on economic activity and the outlook for price stability in the euro area. It has been quite volatile lately and we do monitor carefully. I think in the current environment the ECB will continue to monitor developments in the exchange rate, but we don't focus on the exchange rate as such. We focus on the impact that it has on prices and the implication that it has for the medium-term inflation outlook.

Your second question on the Stability and Growth Pact. First of all, I would like to observe that, although it's in the remit of the Commission and the Council, the decision to extend or to activate the general escape clause, to keep it alive if you will - I never know whether it's activate or deactivate - but to keep it in place, in other words, escape is allowed and some of the current constraints under the current SGPs are waived. Their decision to extend it until such time when the European economies are back to pre-COVID-19 is, in our view, the right approach. We are not decision-makers in that. We are consulted and this is certainly the position that we would take. To the extent that under the winter projections, the Commission foresees the return to pre-COVID-19 in mid-2022, this is actually appropriate in our view to keep that waiver until such time.

Our hope is that by the time the general escape clause is deactivated and constraints return, SGPs will have been revisited and will have been improved in order for it to be more simple, more focused on productivity, investment, and also indeed with the fiscal discipline embedded, but probably with a renewed look at what criteria, what measurements are used. It was decided back in the 1990s and the situation has changed significantly since those days. So it's only fair to look at it again and to see what is mostly needed in order to give both stability and solid sustainable and stable growth going forward.

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